

**REPORT OF THE AUDIT OF THE  
FORMER LAWRENCE COUNTY  
SHERIFF'S SETTLEMENT - 2002 TAXES**

**January 5, 2003**



**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**  
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**EXECUTIVE SUMMARY**

**AUDIT EXAMINATION OF THE  
FORMER LAWRENCE COUNTY  
SHERIFF'S SETTLEMENT - 2002 TAXES**

**January 5, 2003**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2002 Taxes for the former Lawrence County Sheriff as of January 5, 2003. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The former Sheriff collected taxes of \$2,949,131 for the districts for 2002 taxes, retaining commissions of \$122,213 to operate the Sheriff's office. The former Sheriff distributed taxes of \$2,824,022 to the districts for 2002. Taxes of \$1,121 are due to the districts from the former Sheriff.

**Report Comments:**

- The Sheriff's Office Should Invest Tax Money In An Interest Bearing Account
- The Former Sheriff Should Have Made Daily Deposits
- The Former Sheriff Should Deposit Personal Funds To Eliminate The Deficit In The 2002 Tax Account
- Lacks Adequate Segregation Of Duties

**Deposits:**

The former Sheriff's deposits were insured and collateralized by bank securities or bonds.



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To the People of Kentucky

Honorable Paul E. Patton, Governor  
Gordon C. Duke, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable Phillip Carter, Lawrence County Judge/Executive  
Honorable Bobby Workman, Former Lawrence County Sheriff  
Honorable Garrett Roberts, Lawrence County Sheriff  
Members of the Lawrence County Fiscal Court

Independent Auditor's Report

We have audited the former Lawrence County Sheriff's Settlement - 2002 Taxes as of January 5, 2003. This tax settlement is the responsibility of the former Lawrence County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the former Lawrence County Sheriff's taxes charged, credited, and paid as of January 5, 2003, in conformity with the modified cash basis of accounting.



To the People of Kentucky

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Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Phillip Carter, Lawrence County Judge/Executive

Honorable Bobby Workman, Former Lawrence County Sheriff

Honorable Garrett Roberts, Lawrence County Sheriff

Members of the Lawrence County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated May 8, 2003, on our consideration of the former Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The Sheriff's Office Should Invest Tax Money In An Interest Bearing Account
- The Former Sheriff Should Have Made Daily Deposits
- The Former Sheriff Should Deposit Personal Funds To Eliminate The Deficit In The 2002 Tax Account
- Lacks Adequate Segregation Of Duties

The schedule listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated in all material respects in relation to the financial statement taken as a whole.

Respectfully submitted,



Edward B. Hatchett, Jr.

Auditor of Public Accounts

Audit fieldwork completed -  
May 8, 2003



LAWRENCE COUNTY  
BOBBY WORKMAN, FORMER COUNTY SHERIFF  
SHERIFF'S SETTLEMENT - 2002 TAXES

January 5, 2003

| <u>Charges</u>                   | <u>County Taxes</u> | <u>Special<br/>Taxing Districts</u> | <u>School Taxes</u> | <u>State Taxes</u> |
|----------------------------------|---------------------|-------------------------------------|---------------------|--------------------|
| Real Estate                      | \$ 431,926          | \$ 395,641                          | \$ 1,277,654        | \$ 407,762         |
| Tangible Personal Property       | 60,557              | 41,602                              | 128,077             | 99,538             |
| Intangible Personal Property     |                     |                                     |                     | 24,975             |
| Unmined Coal - 2002 Taxes        | 5,943               | 5,070                               | 17,580              | 5,611              |
| Oil and Gas Property Taxes       | 17,173              | 14,651                              | 50,797              | 16,212             |
| Additional Bills                 | 3,090               | 2,666                               | 9,022               | 5,113              |
| Fire Protection                  | 2,524               |                                     |                     |                    |
| Taxes Increased Through          |                     |                                     |                     |                    |
| Exonerations                     | 79                  | 84                                  | 234                 | 75                 |
| Franchise Corporation Taxes      | 151,051             | 116,144                             | 357,424             |                    |
| Penalties                        | 73                  | 60                                  | 210                 | 68                 |
| Adjusted to Sheriff's Receipt    | 3,012               | (2)                                 | 8                   | 215                |
| Gross Chargeable to Sheriff      | <u>\$ 675,428</u>   | <u>\$ 575,916</u>                   | <u>\$ 1,841,006</u> | <u>\$ 559,569</u>  |
| <u>Credits</u>                   |                     |                                     |                     |                    |
| Exonerations                     | \$ 4,031            | \$ 3,723                            | \$ 11,874           | \$ 3,790           |
| Discounts                        | 6,408               | 5,603                               | 18,071              | 6,951              |
| Transfers To Incoming Sheriff    | 100,022             | 89,995                              | 291,259             | 95,196             |
| Uncollected Franchise            | 14,242              | 11,732                              | 39,891              |                    |
| Total Credits                    | <u>\$ 124,703</u>   | <u>\$ 111,053</u>                   | <u>\$ 361,095</u>   | <u>\$ 105,937</u>  |
| Taxes Collected                  | \$ 550,725          | \$ 464,863                          | \$ 1,479,911        | \$ 453,632         |
| Less: Commissions *              | 23,693              | 19,757                              | 59,196              | 19,567             |
| Taxes Due                        | \$ 527,032          | \$ 445,106                          | \$ 1,420,715        | \$ 434,065         |
| Taxes Paid                       | 526,477             | 444,644                             | 1,419,150           | 433,751            |
| Credit For Returned Checks       | 113                 | 96                                  | 333                 | 106                |
| Refunds (Current and Prior Year) | 195                 | 178                                 | 570                 | 184                |
| Due Districts                    |                     |                                     |                     |                    |
| as of Completion of Fieldwork    | <u>\$ 247</u>       | <u>\$ 188</u>                       | <u>\$ 662</u>       | <u>\$ 24</u>       |

\* and \*\* See Page 4

The accompanying notes are an integral part of the financial statement.

LAWRENCE COUNTY  
BOBBY WORKMAN, FORMER COUNTY SHERIFF  
SHERIFF'S SETTLEMENT - 2002 TAXES  
January 5, 2003  
(Continued)

\* Commissions:

|          |    |           |
|----------|----|-----------|
| 10% on   | \$ | 10,000    |
| 4.25% on | \$ | 1,459,220 |
| 4% on    | \$ | 1,479,911 |

\*\* Special Taxing Districts:

|                    |    |                   |
|--------------------|----|-------------------|
| Library District   | \$ | 81                |
| Health District    |    | 47                |
| Extension District |    | 44                |
| Watershed District |    | <u>16</u>         |
| Due Districts      | \$ | <u><u>188</u></u> |

LAWRENCE COUNTY  
NOTES TO FINANCIAL STATEMENT

January 5, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff's office and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of January 5, 2003, the former Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the former Sheriff's agent in the former Sheriff's name, or provided surety bond which named the former Sheriff as beneficiary/obligee on the bond.

LAWRENCE COUNTY  
NOTES TO FINANCIAL STATEMENT  
January 5, 2003  
(Continued)

Note 4. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2002. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2003. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 26, 2002 through January 5, 2003.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2002. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 20, 2002 through January 5, 2003.

Note 5. Deficit Balance

Based on available records, there is a \$1,501 deficit in the former Sheriff's official tax account. A Schedule of Excess of Liabilities Over Assets is included in this report as a supplemental schedule.

SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS



LAWRENCE COUNTY  
BOBBY WORKMAN, FORMER COUNTY SHERIFF  
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS

January 5, 2003

Assets

|                     |                   |
|---------------------|-------------------|
| Cash in Bank        | \$ 585,974        |
| Deposits in Transit | <u>80,908</u>     |
| Total Assets        | <u>\$ 666,882</u> |

Liabilities

|                        |               |            |
|------------------------|---------------|------------|
| Paid Obligations-      |               |            |
| Outstanding Checks     | \$ 654,383    |            |
| Paid Liabilities       | <u>12,644</u> |            |
| Total Paid Obligations |               | \$ 667,027 |

Unpaid Obligations-

    Additional Taxes Due Districts-

|  |            |
|--|------------|
| State                                    | \$ 24      |
| County                                   | 247        |
| School                                   | 662        |
| Library                                  | 81         |
| Health                                   | 47         |
| Extension                                | 44         |
| Soil                                     | 16         |
| Tax Comissions Due Sheriff's Fee Account | <u>235</u> |

|  |                          |
|--|--------------------------|
| Total Unpaid Obligations                 | <u>1,356</u>             |
| Total Liabilities                        | <u>\$ 668,383</u>        |
| Total Fund Deficit as of January 5, 2003 | <u><u>\$ (1,501)</u></u> |

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## COMMENTS AND RECOMMENDATIONS



LAWRENCE COUNTY  
BOBBY WORKMAN, FORMER COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS

January 5, 2003

STATE LAWS AND REGULATIONS:

1. The Sheriff's Office Should Invest Tax Money In An Interest Bearing Account

The former sheriff deposited tax account monies into a non-interest bearing account. KRS 66.480 states, "the county officials at the direction of the fiscal court shall invest and reinvest money subject to their control and jurisdiction." Pursuant to Technical Audit Bulletin #93-002 Section 5, failure to deposit funds into an interest bearing account shall be subject to an audit report comment. In the future, we recommend that the Sheriff's office invest tax monies in an interest bearing account.

*Former Sheriff's Response:*

*This was a bank error corrected on March 8, 2003.*

2. The Former Sheriff Should Have Made Daily Deposits

The former Sheriff did not deposit receipts daily. During our test of receipts it came to our attention that the former sheriff made deposits based upon how much was collected rather than making deposits on a daily basis. The State Local Finance officer under the authority of KRS 68.210 has established minimum accounting requirements, which include depositing receipts intact on a daily basis and reconciling receipts to a daily checkout sheet. We recommend that the sheriff's office deposit receipts daily as required by the State Local Finance Officer.

*Former Sheriff's Response:*

*There are times when daily deposits cannot be worked up on a particular day because of problems with checks received, usually with mortgage companies.*

3. The Former Sheriff Should Deposit Personal Funds To Eliminate The Deficit In The 2002 Tax Account

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The former Sheriff, Bobby Workman has a deficit of \$1,501 in the 2002 tax account. We recommend the former Sheriff deposit personal funds of \$1,501 into the 2002 tax account to eliminate this deficit.

*Former Sheriff's Response:*

*I feel this deficit is a result of errors in the list of tax bills transferred to the incoming sheriff. We expect this deficit will be corrected when the new sheriff's settlement is prepared.*

LAWRENCE COUNTY  
BOBBY WORKMAN, FORMER COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS  
January 5, 2003  
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITIONS:

Lacks Adequate Segregation Of Duties

During our audit we noted the former Sheriff's internal control structure lacks an adequate segregation of duties. This deficiency occurs when someone has custody over assets and the responsibility of recording financial transactions. In our judgment, this condition could adversely affect the Sheriff's ability to record, process, summarize, and report accurate financial information. We recommend the Sheriff's office obtain additional staff to divide the responsibilities or implement the following compensating controls that would help offset the lack of adequate segregation of duties:

- Cash periodically recounted and deposited by the Sheriff
- Periodically agree daily tax collection totals to receipts ledger and deposit slip
- Agree monthly tax reports to receipts ledger and disbursements ledger
- All disbursement checks signed by two people, one being the Sheriff
- The Sheriff examine tax distribution prepared by another employee
- The Sheriff deliver tax distribution checks and monthly tax reports to taxing districts.

*Sheriff's Response:*

*Okay.*

PRIOR YEAR:

1. The Sheriff Should Distribute Interest Earned On Tax Collections Monthly
2. The Sheriff Should Deposit Funds Intact On A Daily Basis

REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





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**Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards**

We have audited the former Lawrence County Sheriff's Settlement - 2002 Taxes as of January 5, 2003, and have issued our report thereon dated May 8, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the former Lawrence County Sheriff's Settlement - 2002 Taxes as of January 5, 2003, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff's Office Should Invest Tax Money In An Interest Bearing Account
- The Former Sheriff Should Have Made Daily Deposits
- The Former Sheriff Should Deposit Personal Funds To Eliminate The Deficit In The 2002 Tax Account



Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Lawrence County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
May 8, 2003



